



OFFICE OF  
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March 1, 2009

The Honorable Antonio R. Villaraigosa, Mayor  
City of Los Angeles  
Room 303, City Hall  
Los Angeles, California 90012

Dear Mayor Villaraigosa:

**SUBJECT: MARCH 1 REPORT**

As required by City Charter Section 311(c), I am submitting an estimate of revenue for the upcoming fiscal year on or before March 1, as well as an estimate of the amount of revenue required to meet the annual debt service requirements for principal and interest for the City's General Obligation Bonds.

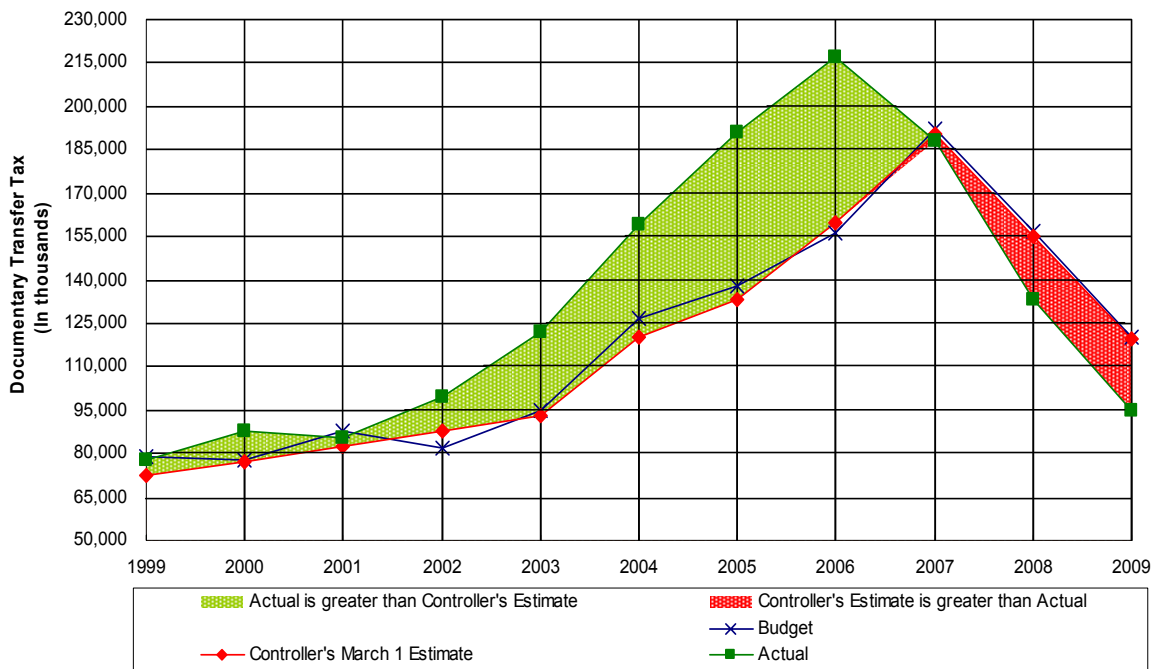
**Economic Overview**

This is both my last revenue estimate as Controller and probably the most difficult time since the 1980's in which to predict revenues. In preparing this report, we met with five leading local economists, reviewed the economic forecasts of UCLA, the State Department of Finance, the State Legislative Analyst Office, the Los Angeles County Economic Development Corporation, and attended the Los Angeles City Employees Retirement System (LACERS) special Economic Outlook presentation. We have also reviewed various publications including the Los Angeles Business Journal and the Wall Street Journal.

To the extent that there is a consensus, it seems to be that a recovery will begin in late 2009, early 2010 or the middle of 2010 and that the recovery will be shallow and long rather than short and quick. However, much of the thoughts around recovery appear to be based on hope and the duration of past recoveries from recession rather than certitude about recovery from the current recession. Concerns expressed about an economic recovery include: the banking and financial industries need to bottom and stabilize; home prices need to stop falling and stabilize; consumers need to resume spending; employment needs to resume growing; consumer confidence needs to increase; and the current federal stimulus package, as well as future packages, need to produce intended results. These are all major issues facing the nation, the state and the City of Los Angeles.

One of the difficulties in forecasting the future in the current environment is that, overall, past forecasts have not predicted where we are now. The housing bubble was not considered a bubble nationwide in 2005, but an issue for certain local communities. Then it was thought that housing price acceleration would slow, and progressively concerns developed that housing would deteriorate substantially. Now on top of already substantial declines in home prices, further drops of 15 to 20% may occur, dropping home prices to the 2002 level.

Perhaps the most volatile tax the City has is the Documentary Transfer Tax. It is a tax on the sale of real property and is based on purchase price and volume. The graph below displays the volatility of the tax. In March of 1998, the Office of the Controller forecast receipts of \$72 million, while actual receipts for the ensuing fiscal year were \$78 million. In March of 2005, my Office forecast \$160 million, while the actual was \$217 million, an unparalleled increase of almost threefold in seven years. However, the decline has proved to be more rapid than the increase. In March of 2008, we forecast receipts of \$120 million, we now estimate actual receipts will be \$95 million, if we are lucky.



As the graph shows, the Los Angeles housing market has been very volatile. In addition, the national credit markets have deteriorated reducing liquidity to the country and to the world. In fact, there is discussion of the need, as undesirable as it maybe, to perhaps nationalize certain banks. The housing market and the credit market along with job losses and economic uncertainty have helped to reduce consumer spending, a key component to the economy. As a consequence of current information, we are reducing many current year revenue estimates

below budget estimates, and for 2009-10 many are reduced further. Hopefully for 2010-11, the economy will resume positive growth.

I recommend that the Mayor and City Council be very conservative in their development of a 2009-10 budget. It is entirely possible, given the current state of the national economy, that the revenue estimates contained in this report prove to be optimistic.

### Revenue Projections

I am projecting General Fund revenues of \$4.3 billion for fiscal year 2009-10. My projection is based on a review of data from state and local economic forecasters and publications, and consultation with City officials charged with collecting and tracking City receipts posted in the General Ledger (as of January 2009).

<b>TABLE I</b> <b>CONTROLLER'S REVENUE ESTIMATE</b> (\$ In Thousands)		
<b>Adopted            Budget            FY 08-09</b>	<b>Controller's            Estimate            FY 08-09</b>	<b>Controller's            Estimate            FY 09-10</b>
\$4,553,670	\$4,461,456	\$4,322,455

Note: For comparative purpose, these totals exclude transfers from the Reserve Fund, and revenues from new City fees or policy changes that may occur in FY 2009-10.

This estimate excludes one-time budgeted receipts such as transfers from the Reserve Fund. My estimate of total 2008-09 receipts is \$92.2 million less than the City's Adopted Budget of \$4.6 billion. My estimate for 2009-10, \$4.3 billion, is \$139 million less than the 2008-09 estimated receipts.

## Bond Redemption and Interest

I anticipate that the City's principal and interest requirements for General Obligation Bonds issued to date for fiscal year 2009-10 will be \$163,385,457. This is a decrease of \$3,252,243 from the previous fiscal year.

<b>TABLE II</b>			
<b>GENERAL OBLIGATION BONDS</b>			
<b>DEBT SERVICE REQUIREMENTS</b>			
<b>FOR FISCAL YEAR 2009-10</b>			
	<b>Principal</b>	<b>Interest</b>	<b>Total Requirement</b>
GOB - Series 1998-A Refunding	\$12,855,000	\$4,029,769	\$16,884,769
GOB - Series 1999-A Refunding	13,005,000	1,477,831	14,482,831
GOB - Series 1999-B	3,000,000	75,000	3,075,000
GOB - Series 2000-A	4,650,000	337,125	4,987,125
GOB - Series 2001-A	10,065,000	3,572,575	13,637,575
GOB - Series 2002-A	13,110,000	8,537,888	21,647,888
GOB - Series 2002-B Refunding	405,000	2,830,375	3,235,375
GOB - Series 2003-A	11,665,000	8,285,400	19,950,400
GOB - Series 2003-B Refunding	3,355,000	834,356	4,189,356
GOB - Series 2004-A	18,025,000	13,160,250	31,185,250
GOB - Series 2005-A	6,340,000	4,707,450	11,047,450
GOB - Series 2005-B Refunding	100,000	3,405,000	3,505,000
GOB - Series 2006-A	3,510,000	2,654,438	6,164,438
GOB - Series 2008-A	5,050,000	4,343,000	9,393,000
Total	<u>\$105,135,000</u>	<u>\$58,250,457</u>	<u>\$163,385,457</u>

## Additional Concerns

In my report last year, we included the following paragraph: "Most of the economists I talked to do not anticipate a recession. They expect slow growth in 2008 with growth picking up in late 2008 or early 2009. They expect continued issues with housing and it's spill over into other areas. But while the unemployment rate is expected to increase, that increase will not be sufficient to drag the economy into recession."

The economy has not cooperated with the forecast, and the impact on the City will be substantial. Further, the economy has negatively affected the value of assets in the Fire and Police Pension System and in LACERS. This may result in substantially increasing the City's contribution to the two systems and an increase in the already large budgetary deficits.

It is likely that it will be several years before we see revenues return to the current level. Compounding this matter, it is probable that City contributions to retiree health care and pensions will increase, most civilian employees have contracted salary increases built into existing contracts, police and fire units will be seeking salary increases in their upcoming contract negotiations, vendors will be billing for cost increases and our constituents, in a time of trial, will be requesting increased services. We do not have enough funds to meet these disparate requests for services. As a result, we as elected officials must take bold steps and consider restructuring City operations.

- We need to reach a consensus on services the City should provide and the resources (employees) needed to provide those services. There has been discussion of reducing the work force through retirement incentives but no decision has been made. Employees who had planned on retiring are waiting for a decision and as a result, increasing not decreasing, our salary costs at a time we can ill afford such an increase. We need to make a decision and proceed with an incentive program or alternate cost reductions.
- Discussion has also occurred with respect to involuntary employee reductions. Layoffs are traumatic but so are delays in dealing with the current economic conditions. Once a decision is reached, it might take as long as six months for layoffs to occur. That would put us well into next fiscal year. Rather than carrying savings forward from this year to next, we would be carrying forward higher expenditures.
- Can we afford to pay the salary increases already negotiated with civilian bargaining units and negotiate increases with sworn fire and police units? Based on current payrolls and employment levels, each 1% increase given to all City employees costs the City approximately \$28 million.
- The City, rightfully, provides a fair retirement to its employees, and the City has been committed to making its contribution to the two systems. If we don't bring expenditures in line with revenues, we may in the future face the difficult choice of delaying City contributions to the systems, requiring that employees increase their contributions or change benefits for future employees.
- We are all elected to administer this City for our constituents and provide the services they need. We must now evaluate those services to determine if there are services that can be eliminated, as difficult as this may be. If we don't and if times are as bad as many think, we may need, in the future, to reduce public safety services.
- I have released many performance audits during my time as Controller. Many of those audits have had recommendations with economic impact. Many of the recommendations have been accepted while others have been opposed. Given the current state of the City, I urge the Mayor and City Council to again review those audits to look for savings available to the City in trying times. If requested, I will provide a comprehensive list of recommendations not implemented.

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As Controller under the Charter, I must issue a March 1 revenue estimate for budget planning purposes. This letter goes beyond that requirement. My role as Controller is not only to annually report on revenue but to also make payments to City employees, vendors, bond holders and others. As the ongoing state fiscal crisis has vividly demonstrated, when the state does not have sufficient revenues to meet its expenditures, the State Controller withholds payments. The same is true of the City, if we do not have sufficient revenue to meet expenditures, this Office will withhold payments. While such a condition is not remotely considered for this year, given the uncertain financial future facing the nation, the state and the City, unless expenditures and revenues are brought in line, the need for the Controller to delay payments in future years can not be ruled out. I know that the Mayor and all members of the City Council share my concern and commitment that this never happen to the City.

In prior reports, I have supported building a stronger Reserve Fund and urged caution in using one-time revenues to balance the budget. Given unpredictable issues facing the economy and the City, I strongly support bringing budget appropriations in line with revenues while minimizing the use of the Reserve Fund to balance the budget. We need to realistically realign our expenditures to match our ongoing revenues.

However, part of the purpose of a Reserve Fund is to assist with an orderly adjustment in difficult economic times. The next several years will certainly qualify as difficult times and it may be necessary for the Mayor and Council to reduce the Reserve Fund to aid in an orderly transition to a new economic reality. I strongly urge the Mayor and City Council to only use the Reserve Fund as part of a comprehensive plan to bring City expenditures and revenue in line. In no way should it be used as a one-time revenue to prop up budgetary spending that is not sustainable.

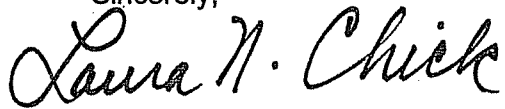
In prior years, I have included an estimated amount of borrowing needed to meet City short-term cash flow requirements in the first half of the fiscal year. This year due to the financial uncertainty facing the City in 2008-09 and 2009-10, we cannot develop reasonable estimates for the key elements needed to determine cash flow requirements and availability in the period from July 1 to December 20. My Office will work with the Mayor and CAO, as we have in prior years, to determine the amount of borrowing required and its source(s), as better financial and budgetary information becomes available. However, given projected revenues, and concerns expressed in this letter about delays in reducing expenditures going into next year, likely cash flow borrowing requirements will significantly exceed the \$350 million borrowed this fiscal year.

Again, I sincerely thank Bruce Baltin of Pannell Kerr Forrester Consulting, Jack Kyser of the Los Angeles Economic Development Corporation, G.U. Krueger of International Housing Partners, Jerry Nickelsburg of the UCLA Anderson School of Management, and Christopher Thornberg of Beacon Economics for their invaluable assistance in the preparation of this report. I also thank

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staff at all City departments involved with providing information on revenues for their areas of responsibility. Finally, I wish to thank the personnel in the Controller's Financial Analysis and Reporting Division for preparing this report.

Sincerely,

A handwritten signature in cursive script that reads "Laura N. Chick".

LAURA N. CHICK  
City Controller

Attachments

cc: Honorable Members of the Los Angeles City Council  
Gerry F. Miller, Chief Legislative Analyst  
Raymond P. Ciranna, Interim City Administrative Officer

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## City Charter Requirement

Section 311(c) of the Charter for the City of Los Angeles requires that the Controller submit an estimate of the revenues to the City, along with a detailed estimate of money required for all outstanding bonded indebtedness and other lawful obligations of the City on or before March 1 of each year. This report is submitted in compliance with the City Charter requirement.

## Consumer Confidence

Consumer confidence measures how consumers feel about the nation's economy. Consumer optimism is indicative of consumer spending which creates approximately two-thirds of the economic activity in the United States. Two leading measures of consumer confidence are the Consumer Confidence Index<sup>1</sup> (CCI) published by The Conference Board ("Board"), an independent economic research organization, and the Consumer Sentiment Index<sup>2</sup> (MCSI) published by the University of Michigan Institute for Social Research (MISR).

In January 2009, the CCI, which continues to hover at all-time lows, decreased to 37.7 from 38.6 in December 2008. This indicates that consumers are becoming more negative about current business conditions. Consumers' job outlook remains somewhat mixed. The percentage of consumers expecting fewer jobs in coming months decreased slightly, while those expecting more jobs slipped downward from the December indication. Indications of weakening consumer confidence about current economic conditions are as follows:

- Indications that conditions are "good" declined to 6.4% from 7.7%;
- Indications that conditions are "bad" increased to 47.9% from 45.8%;

Consumers' expectations for the next six months were also more pessimistic based on the following:

- Expectations that business conditions would worsen decreased to 31.1% from 32.9%, while;
- Expectations of improved business conditions remained relatively unchanged at 13.3%, compared to 13.4% in December, however, the attitude about the labor market was slightly mixed;
- Expectations of fewer jobs edged down to 36.7% from 40.6%; while;
- Expectations of more jobs to become available eased to 9.4% from 9.8%; and
- Expectations of increases in personal income declined to 10.0% from 12.7%.

Consumer confidence in January 2009 declined slightly, remaining at an all-time low. That suggests consumers started the New Year with the same degree of pessimism exhibited in the

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<sup>1</sup> The monthly Consumer Confidence Index is a product of the Consumer Confidence Survey that is based on a representative sample of 5,000 U.S. households and is composed of the Consumer Confidence, Present Situation and Expectations indexes. The indexes are based on 100-point scales, with 1985 considered the base year with 100 points.

<sup>2</sup> The Survey Research Center in the Institute for Social Research at the University of Michigan is a national and international leader in social science research. The Survey Research Center conducts the Surveys of Consumers that are considered to be a strong predictor of the future direction of the national economy. The Surveys of Consumers produces the Index of Consumer Expectations, which is included in the Leading Indicator Composite Index that is published by the United States Commerce Department, Bureau of Economic Analysis.

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fourth quarter of 2008. The Present Situation Index<sup>3</sup>, a sub-index of the CCI, declined slightly in January 2009 suggesting that consumers felt economic conditions did not further erode, but they did not improve either. The Expectations Index<sup>4</sup>, another sub-index of the CCI, had a similar decline reflecting the consumers' down-beat outlook on the short-term future of the economy.

The MCSI index rose a slight 1.1 points in January 2009. Consumers may have been less worried in January due to expectations of the pending economic stimulus package. However, the final January reading of 61.9 is slightly down from the preliminary reading earlier in the month, and overall it remains in depressed territory. According to the MISR survey, this reflects a deepening recession in the world's largest economy. And, "consumers are panicked and confidence is shattered."

### **California Department of Finance – January 10, 2009**

The California Department of Finance's (DOF) economic outlook reported that the country is still in a recessionary spiral caused by falling home prices, worsening credit availability, shrinking equity values, and growing job losses. Attempts by the U.S. Treasury, the Federal Reserve, Congress, and the White House to stimulate the economy and free up credit had little impact in 2008. Much more needs to be done in 2009 to stimulate the economy and free-up credit to prevent economic output from falling for the first time since 1991. Negative growth is projected for the national economy in 2009, with weak growth in 2010, followed by good growth in 2011 as expressed by following primary indicators:

- Real Gross Domestic Product (GDP) is projected to decline 1.1 percent in 2009, and grow 1.7 percent in 2010 and 2.9 percent in 2011, as compared to 1.3 percent growth in 2008.
- Nonfarm payroll employment is forecast to decrease by 1.5 percent in 2009, followed by growth of 0.1 percent in 2010, and 1.3 percent in 2011, compared to a decline of 0.1 percent in 2008.

The housing slump has now affected most major industry sectors, especially retail trade and manufacturing. Consumers tightened purse strings considerably in the second half of 2008. Retail sales declined for five consecutive months as of November 2008. Inflation adjusted consumer expenditures declined for the fifth consecutive month in October 2008. Businesses responded to consumer cutbacks with reduced expenditures on new equipment and structures. Orders and shipments of non-defense capital goods, excluding aircraft, declined for three consecutive months ending in October 2008. And, consistent with recessions in the manufacturing sector and the general economy, the Supply Management Manufacturing Index fell in November to its lowest level since 1982.

Moreover, the housing slump continues to impact the nation's economy. In November, housing starts fell to the lowest level since record keeping started in 1959. Recently, the committee of economists that officially dates the troughs and peaks of the national economy declared that the economy has been in a recession since December 2007. An additional five months of

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<sup>3</sup> A sub-index that measures overall consumer sentiments toward the present economic situation and is used to derive (about 40% of) the Consumer Confidence Index.

<sup>4</sup> A sub-index that measures overall consumer sentiments toward the short-term (6-month) future economic situation and is used to derive (about 60% of) the Consumer Confidence Index.

recessionary activity, into May or June 2009, would mark the longest recession in post-World War II history. Economic output has been trending downward since the fourth quarter of 2007, but fourth quarter data for 2008 suggest a sharp decline in economic output. Labor markets are also depicting a deepening recession. Nonfarm payroll has declined every month following its peak in December 2007, while personal income growth is expected to stabilize at around 2 percent for 2009 and 2010.

In 2008, California's economic decline was consistent with the national economy. Except, the housing slump had a greater impact in this State. In California, the housing market is not showing many signs of additional slowing. Residential permits have stabilized at a low level, and monthly construction job losses are smaller. Sales of distressed properties account for much of California's residential property sales, while sales of non-distressed homes were likely higher than a year ago. Private-sector nonresidential construction slowed down in 2008, trending considerably lower than 2007. Total personal income grew slower in the first half of 2008, and taxable sales decelerated even faster, with third quarter 2008 sales 4 percent lower than second quarter sales. Significant economic projections are as follows:

- Personal income is projected to grow 2.0 percent in 2009, 2.1 percent in 2010, and 4.6 percent in 2011, as compared to estimated growth of 3.7 percent in 2008.
- Nonfarm payroll employment is projected to decline 1.6 percent in 2009 and 0.5 percent in 2010, and then grow 1.4 percent in 2011, as compared to an estimated decline of 0.6 percent in 2008.

The national and California economies are expected to have little momentum entering 2009, resulting in very weak economic performance in the first half of the year. The return of economic strength for both economies could hinge on the length of time it takes to make credit more widely available. Important measures of national and local economic strength are shown in the table below.

	Estimate 2008	Projected 2009	Projected 2010
<b>United States Forecast</b>			
Real GDP	1.3	(1.1)	1.7
Personal income	4.2	2.1	2.4
Wage and salary employment (nonfarm)	(0.1)	(1.5)	0.1
Unemployment rate (percent)	5.7	7.7	8.2
Consumer price index	4.2	1.0	1.9
<b>California Forecast</b>			
Personal income	3.7	2.0	2.1
Wage and salary employment (nonfarm)	(0.6)	(1.6)	(0.5)
Taxable sales	(4.5)	(6.0)	3.7
Consumer price index	3.8	1.6	2.3
Unemployment rate (percent)	7.1	9.1	9.4

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## California Legislative Analyst – November 2008 Forecast

According to the California Legislative Analyst's Office (LAO), the national and state economies suffered from subdued growth in 2008, and the same is expected for most of 2009, but modest recovery is expected in 2010 followed by further strengthening in 2011. The LAO stressed the "outlook is clouded with considerable uncertainty." In 2008, unlike the previous year, evidence of economic decline can be seen throughout the economy, including in retail and other consumer spending, durable goods orders, consumer confidence, industrial production, employment levels, the unemployment rate, housing activity, nonresidential construction, export activities, and the condition of federal, state, and local government budgets. Financial and credit markets are still in shambles. Whether or not the federal bailout legislation will resolve the problems in our financial markets is uncertain. The following indicators clearly express the country's economic woes:

- In the third quarter, consumption expenditures fell at an annual rate of 3.1 percent, the first quarterly decline in more than 15 years.
- The country's unemployment rate reached 6.5 percent in October, compared to 4.7 percent one year ago—now at a 14-year high.
- The Consumer Confidence Index declined in October to its lowest level since its creation.
- New car sales totaled an annual rate of just 10.5 million units in October, down 35 percent from the average of the past three years.
- The housing market is soft, characterized by low sales levels, reduced construction activity, price declines, and foreclosures and financing problems.

How long the economic woes will last, could hinge on the timing of the recovery of the Country's financial and credit markets. The economic activity is projected to be negative in 2009. GDP is expected to decline by negative 1 percent in 2009, then drift upward to 1.5 percent growth in 2010 and continue to average around 3 percent through 2014. This forecast may prove to be optimistic if the economy performs worse than expected in the fourth quarter of 2008. The following indicators are the basis for the 2009 and 2010 outlook:

- Real consumer spending growth is expected to decline to about 0.2 percent in 2009 versus 0.4 percent growth estimated for 2008, before rising to 1.6 percent in 2010.
- Sales of new light vehicles (automobiles and light trucks) should decrease about 20 percent (several million units) through 2010, primarily due to subdued income and job growth, as well as tight financial markets and high gasoline prices.
- Residential construction is forecast to decline 15 percent in 2009 compared to 20 percent decline estimated for 2008.
- Housing starts are—the lowest in 50 years—predicted to drop to 0.7 million units in 2009 compared to 0.9 million units estimated for 2008. Housing starts are projected to grow slowly, but steadily after 2009 up to 1.8 million units by 2014.
- Nonresidential construction is also expected to be weak, but not as weak as residential construction.
- Business fixed investment is expected to decline modestly in 2009, with a further slight drop in 2010, and start to recover thereafter.
- Oil prices are not expected to return to their record highs in the foreseeable future nor to their lows of the 1990s and early 2000s.

In the near future, California's economy is expected to be similar to the national economy, with reduced levels of activity and reduced performance in most sectors. Except, the turmoil in the housing and mortgage markets will continue to affect the state more than nationally. Specific highlights of the LAO's forecast include:

- Personal income growth is predicted to decline to 2.1 percent in 2009 compared to 3.9 percent estimated for 2008, before rebounding to 2.6 percent in 2010, then averaging 5.4 percent through 2014.
- Wage and salary employment growth is predicted to decline 1.3 percent in 2009, and decline further by 0.3 percent in 2010, compared to a decline 0.5 percent estimated for 2008.
- New residential building permits are projected to be 70,000 in 2009, the same as estimated for 2008, before rising to 85,000 in 2010, then trending up thereafter to reach 140,000 by 2014.
- The unemployment rate is expected to average in the vicinity of 9 percent in 2009 and 2010, and may even rise above that.

The national and California forecasts has great downside risks because even as the forecasts were being prepared, negative economic reports were coming in. For example: If the federal bailout plan fails to unlock the free flow of credit and liquidity to worthy borrowers, consumer spending and business investment would be further impaired. This would result in large numbers of additional job losses and other types of economic disruptions.

Table II shown below presents a more detailed statistical view of the LAO's outlook for California and the nation.

TABLE II CALIFORNIA LEGISLATIVE ANALYST'S OFFICE ECONOMIC OUTLOOK NOVEMBER 2008 (PERCENT CHANGE)			
	Estimated 2008	Forecast 2009	Forecast 2010
<b>United States Forecast</b>			
Real GDP	1.3	(1.0)	1.5
Personal income	4.2	2.0	2.5
Wage and salary employment	(0.2)	(1.7)	0.3
Consumer price index	4.0	1.1	2.0
Unemployment rate (percent)	5.7	7.6	7.9
<b>California Forecast</b>			
Personal income	3.9	2.1	2.6
Payroll employment	(0.5)	(1.3)	(0.3)
Consumer price index	4.0	2.0	2.3
Unemployment rate (percent)	7.2	8.8	9.3

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**UCLA Anderson Forecast – December 2008**

UCLA Anderson School of Management (UCLA) economists are “forecasting a nasty recession that will be characterized by four quarters of declining real GDP and unemployment rising to 8.5 percent by late 2009.” Deflated consumer balance sheets are expected to encourage a higher savings rate; therefore, consumption growth should be sluggish. The savings rate could return to a level of 3-4 percent. As a result, a 3 percent increase in savings growth with very sluggish job growth is expected to resume in 2010. Also it could take some time for the Federal government to develop new regulations, monitoring processes, etc. to improve financial market oversight. The financial system will heal over time. This economic crisis has produced record changes in economic indicators.

UCLA economists expressed the difficulty of forecasting in this environment in that “forecasting depends on some reasonable similarity between current situations and episodes in the historical data. But there is SOOO MUCH data over the last several months that we haven’t seen before.” For example:

- Housing starts in October were down to an annual rate of 791,000, edging out the previous annual record of 798,000 in January 1991.
- Sales of autos and light trucks plummeted in October to a rate of 10.5 million units per year from 12.5 million units the previous month.
- The cumulative reduction in GDP from softness in housing is the greatest ever.
- The November 20 level of the Dow was 7500 or 44 percent lower than a year earlier. That is greater than any decline in the 20<sup>th</sup> Century except for the Great Depression.
- Treasury yields in October were at their lowest since the 1940 and 1950s.
- The consumer price index declined 10.9 percent year-over-year in October 2008, the greatest drop since 1937.

UCLA economists expect the state economy to parallel the national economic picture. The recession is expected to continue with negative economic growth through the middle of 2009 with high unemployment into 2010. Currently housing is a lesser contributor to the economic slump. But the housing sector continues to be an important part of the state’s economy. The 25 percent decline in housing prices since 2006 could make houses more affordable as the excess appreciation is burned off. As the downturn in economic activity becomes more general along with associated job loss, the California housing market will further soften. Therefore, foreclosures will continue, and residential construction and manufacturing of associated furnishing and appliances will contract through the 2<sup>nd</sup> quarter of 2009 and start to turnaround close to the end of 2009.

Retail and professional and business services employment have replaced residential construction and finance as source of economic energy driving the current downturn. The bottom for retail will occur when consumers return to the market, concurrent with the bottom in the national economy. Current economic data shows no signs that the economy is near the bottom.

In summary the national and state economies will continue to decline and turnaround, hopefully, by 2011.

Table III shown below presents a more detailed statistical view of the UCLA outlook for California and the nation.

**TABLE III**  
**UCLA ANDERSON SCHOOL**  
**SUMMARY OF ECONOMIC FORECAST**  
**DECEMBER 2008**  
**(PERCENT CHANGE)**

	<b>2008</b>	<b>Forecast 2009</b>	<b>Forecast 2010</b>
<b>United States Forecast</b>			
Real GDP	1.3	(1.6)	1.7
Personal Income	4.2	1.7	2.1
Employment (payroll survey; non farm)	(0.1)	(1.8)	0.0
Unemployment rate (percent)	5.7	7.9	8.5
Consumer price index	3.9	(0.9)	2.5
<b>California Forecast</b>			
Personal Income	3.0	(0.1)	2.9
Wages and salaries (non farm)	(0.4)	(1.6)	0.1
Taxable sales	(1.9)	(2.5)	5.2
Consumer price index	3.7	0.8	2.0
Unemployment rate (percent)	7.1	8.7	8.7

### **Los Angeles Economic Development Corp. (LAEDC) Forecast – February 2009**

LAEDC economists expect the U.S. and California economies to continue to suffer from a serious recession. The economic outlook for California is downbeat for 2009, especially in the first half of the year. By 2010, business and residents of Los Angeles County should have a better economic outlook, but the economic landscape for several industries will have changed. Some significant economic indicators of continuing economic weakness for Los Angeles County include:

- International trade activity is expected to be weak in 2009, with a very modest recovery expected by 2010.
- Tourism is projected to decline in 2009, after several years of strong growth that sparked the development of several new hotels.
- Manufacturing employment will decline due to reduced consumer spending and problems in construction and housing.
- The nonresidential real estate sector is also expected to struggle, with new construction down sharply and developers coping with rising vacancy rates, and flat or declining lease rates. Some commercial properties could go into foreclosure.
- Local government finance will also be a concern, with staff layoffs and service cuts looming. The decline in home values, the slump in retail sales, and the state's budget problems have hurt municipal and county budgets.

However, some positive bits of economic news are expected for the County's economy as follows:

- The aerospace sector is expected to be fairly steady during 2009, with orders expected for the C-17 military cargo plane. Further support could develop in 2010, if the Obama administration is able to turn its full attention to the defense and space budget.
- Major public and private construction projects will also provide support, including a significant boost likely by year-end 2009 from the federal infrastructure program. Also construction projects for local school districts and community colleges could provide a boost as funds are spent from the November 2008 voter approved bond issue.
- Transportation projects could increase as Measure R sales taxes are spent.
- The direction of the motion picture/TV production sector is uncertain for 2009. But the probability of a Screen Actors Guild strike seems to be declining, and the major studios plan to increase production of feature films.
- Companies are still signing major leases for industrial space during this tough economic period.

Table IV shown below presents a more detailed statistical view of the LAEDC outlook for California and the nation.

	Estimate 2008	Forecast 2009	Forecast 2010
<b>United States Forecast</b>			
Real GDP	1.3	(2.9)	1.5
Employment (nonfarm)	(0.3)	(3.2)	(0.9)
Consumer price index	3.8	(1.4)	1.3
Unemployment rate (percent)	5.8	8.7	9.5
<b>California Forecast</b>			
Personal income	2.5	(2.0)	1.0
Employment (nonfarm)	(0.4)	(3.0)	(1.0)
Taxable retail sales	(2.5)	(6.0)	3.1
Unemployment rate (percent)	7.2	10.5	11.7
<b>Los Angeles County Forecast</b>			
Personal Income	5.0	(2.9)	0.9
Employment (nonfarm)	0.1	(2.2)	(1.6)
Taxable retail sales	(1.1)	(5.9)	2.7
Unemployment rate (percent)	7.2	9.8	10.6

## Delays in Fiscal Year Receipts

Most of the national, state and local economic forecasts are based on a calendar year (January 1 through December 31). Certain of the City's receipts are based on a fiscal year (from July 1 through June 30). This differentiation is significant because economic activity that occurs during a calendar year may actually impact two fiscal years.

**TABLE V**  
**COMPARISON OF CALENDAR & FISCAL YEAR SALES TAX RECEIPTS**  
January 1, 2009

<b>This quarter</b>	<b>of calendar year</b>	<b>Corresponds with this quarter</b>	<b>of fiscal year</b>	<b>Revenue is actually received this quarter</b>	<b>of fiscal year</b>
1st	2009	3rd	2008 - 09	4th	2008 - 09
2nd	2009	4th	2008 - 09	1st	2009 - 10
3rd	2009	1st	2009 - 10	2nd	2009 - 10
4th	2009	2nd	2009 - 10	3rd	2009 - 10
1st	2010	3rd	2009 - 10	4th	2009 - 10
2nd	2010	4th	2009 - 10	1st	2010 - 11

The preceding table demonstrates the difference between the calendar year and the City's fiscal year. Reference to economic activity in the first quarter of the calendar year actually corresponds to the third quarter of the City's fiscal year.

The City's sales tax receipts lag behind the actual economic quarter upon which they are based. For example, third quarter calendar year economic activity for sales taxes generates receipts to the City during the second quarter of the fiscal year.

## Estimate of 2008-09 Year End City Revenue

The complete list of estimated City receipts for fiscal year 2008-09 is presented in Exhibit I. The following table presents the City's economy-sensitive General Fund receipts for fiscal year 2007-08 and the estimates for 2008-09.

	Actual Receipts FY 2007-08	Adopted Budget FY 2008-09	Controller's Estimated Receipts FY 2008-09	% Variance Controller/ Adopted Budget FY 2008-09
Property Tax	\$ 1,389,255	\$ 1,461,394	\$ 1,501,241	2.73%
Utility Users' Tax	628,319	637,600	663,533	4.07%
Business Tax	466,997	472,395	455,408	-3.60%
Sales Tax	335,562	336,137	317,000	-5.69%
Transient Occupancy Tax	148,523	155,914	145,125	-6.92%
Documentary Transfer Tax	132,922	120,024	95,000	-20.85%
Licenses, Permits, Fees and Fines	614,891	804,178	738,459	-8.17%

- Property Tax.** For fiscal year 2008-09, it is anticipated that property tax receipts will be \$40 million higher than the budgeted amount. Of this amount, \$32 million is attributable to the 1% general property tax. This is a carry-over effect of the growth in property valuation in the prior years. The slowing in real estate or construction activities should not have a severe effect on the property tax base as valuations for the 2008-09 tax year are based on a January 2008 lien date. The remaining balance, \$8 million, is the difference between the projected and actual result of the State's action redirecting property taxes to local government in lieu of sale taxes and vehicle license fees.
- Utility Users' Tax.** The estimated utility users' tax receipts of \$664 million are broken down as follows: \$290 million telephone users, \$287 million electric users, and \$86 million gas users. Electric and telephone users' tax receipts are estimated to be higher than the original budget by \$12 million and \$24 million, respectively, due to receipts to-date and an \$8.2 million one-time telephone tax audit receipts. The gas users' tax receipts are estimated to be \$10 million less than budget due to declining natural gas prices.
- Business Tax.** The Office of Finance projects that for fiscal year 2008-09, business tax will total \$455 million or \$17 million below budget even with a \$5 million one-time collection as a result of the planned amnesty program. The projection is a 3.3% reduction from prior fiscal year's receipts and a 3.6% reduction from the budget.
- Sales Tax.** Receipts for the first five months of the fiscal year were within budget; however, receipts for December 2008 to February 2009, were 10% lower than the budgeted amount. It is anticipated that the trend will continue through the end of the fiscal year and for fiscal

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year 2008-09, sales tax receipts are projected to be \$317 million. This is \$19 million or 5% lower than the budgeted amount of \$336 million. This estimate does not include any additional revenue from any state action to expand the sales tax to services. The estimate assumes that the state's reduced allocation in January and February is correct and will not be adjusted later in the fiscal year.

- **Transient Occupancy Tax.** The leisure and hospitality sector continued to slow down in the current year. Receipts during the first half of the fiscal year were below the current budget estimate. It is expected that total receipts for the year will be \$11 million lower than the budgeted amount of \$156 million. This trend is aligned with the projections of Bruce Baltin, of Pannell Kerr Forrester (PKF) Consulting, who indicated that hotel occupancy in the City and the average daily rate continue to decline.
- **Documentary Transfer Tax.** The real estate bubble burst. Prices continue to decline and increased sales volume does not offset the decline in prices. Receipts as of February 2009 were \$17 million below budget and 38% lower than the prior year. It is projected that by the end of the fiscal year, receipts will total \$95 million, which is 20.8% below the original adopted budget and 28.5% below last year's receipts. This is consistent with the projections of G.U. Krueger of International Housing Partners (IHP). It is possible that this tax could decline below the \$95 million, if the real estate and job markets do not improve.
- **Licenses, Permits, Fees and Fines.** Receipts are estimated to total \$738 million, which is \$66 million or 8% below budget but \$124 million or 20% higher than the prior year's receipts. Reduced transfer from the Special Parking Revenue Fund of \$30 million, delayed sale of surplus properties, and decline in other receipts contributed to the aforementioned \$66 million decrease.

## Estimate of Fiscal Year 2009-10 City Revenue

The complete list of estimated City receipts for fiscal year 2009-10 is presented in Exhibit II. The following table presents the City's economy-sensitive General Fund receipts for fiscal year 2007-08 and the estimates for 2008-09 and 2009-10.

**TABLE VII**  
**GENERAL FUND ECONOMY-SENSITIVE REVENUES**  
(dollar amounts expressed in thousands)

	Actual	Adopted	Controller's Estimated		% Change		
	Receipts FY 2007-08 (a)	Budget FY 2008-09 (b)	Receipts FY 2008-09 (c)	Receipts FY 2009-10 (d)	(c) / (a)	(c) / (b)	(d) / (c)
Property Tax	\$ 1,389,255	\$ 1,461,394	\$ 1,501,241	\$ 1,420,685	8.06%	2.73%	-5.37%
Utility Users' Tax	628,319	637,600	663,533	672,533	5.60%	4.07%	1.36%
Business Tax	466,997	472,395	455,408	434,881	-2.48%	-3.60%	-4.51%
Sales Tax	335,562	336,137	317,000	313,000	-5.53%	-5.69%	-1.26%
Transient Occupancy Tax	148,523	155,914	145,125	143,212	-2.29%	-6.92%	-1.32%
Documentary Transfer Tax	132,922	120,024	95,000	100,000	-28.53%	-20.85%	5.26%
Licenses, Permits, Fees and Fines	614,891	804,178	738,459	681,151	20.10%	-8.17%	-7.76%

- Property Tax.** The total property tax receipts are projected to decrease to \$1.4 billion. The decrease of \$80 million reflects the 1% negative growth in real estate valuation projected by the County and an increased delinquency rate. The estimated property tax receipts in lieu of sales tax and vehicle license fees will total \$427 million a decrease of \$5 million from the prior year. The estimate assumes a modest decline in real estate valuation. If foreclosures and delinquencies worsen, this estimate may be optimistic.
- Utility Users Tax.** For the fiscal year ending June 30, 2010, the utility users' tax (UUT) receipts are estimated to total \$672 million. The base telephone (adjusted for the one-time audit receipt) and gas component of the UUT is projected at the same level as in fiscal year 2008-09. The electric users' tax is expected by DWP to increase by \$17 million due to the implementation of a rate increase.
- Business Tax.** Receipts are estimated by the Office of Finance and are expected to decrease to \$435 million. A decrease in receipts of 4.5% is projected for fiscal year 2009-10.
- Sales Tax.** Sales tax receipts for fiscal year 2009-10 are estimated to total \$313 million. This estimate is consistent with LAEDC's projection that taxable sales in Los Angeles County will decline 1% and 6% during calendar years 2008 and 2009. The LAEDC estimates that growth will return to 3% in 2010, but due to the timing of receipts (See Table V on page 9), three quarters of sales tax receipts in 2009-10 will reflect calendar 2009 sales and only one quarter will reflect the transition to 3%. See sales tax comments on page 10 with respect to the state's action on expanding sales tax to services.

- **Transient Occupancy Tax.** Hotel occupancy is expected to decline in the first half of fiscal year 2009-10 and improve in the last quarter. It is expected that transient occupancy tax revenues will total \$143 million, a decrease of \$2 million from fiscal year 2008-09. Bruce Baltin of PKF Consulting assisted with this estimate.
- **Documentary Transfer Tax.** Real estate sales activity is expected to improve in fiscal year 2009-10. As such, documentary transfer tax receipts are expected to grow 5% from the prior year to \$100 million. G.U. Krueger of IHP assisted with this estimate. This estimate can be affected by changes in the housing, job and credit markets in either a positive or negative way.
- **Licenses, Permits, Fees and Fines.** Based upon information from City departments, receipts are projected to total \$681 million in fiscal year 2009-10, or a 7.8% decrease from the estimated receipts of \$738 million in fiscal year 2008-09. This revenue category contains General Fund receipts for fee recovery and related cost reimbursement, both of which can be increased or decreased by budgetary decisions.

## General Obligation Bond Payments

The following table lists the City's General Obligation Bonds (GOB) debt service requirements for principal and interest for fiscal year 2009-10. The total principal and interest requirements for 2009-10 are estimated at \$163,385,457. GOBs are general obligations of the City payable from ad valorem taxes levied upon all of the taxable property in the City. The City issues GOB debt for capital improvement projects, including the acquisition of property and the construction of new facilities and improvements to existing facilities.

**TABLE VIII**  
**GENERAL OBLIGATION BONDS**  
**DEBT SERVICE REQUIREMENTS**  
**FOR FISCAL YEAR 2009-10**

	<u>Principal</u>	<u>Interest</u>	<u>Total Requirement</u>
GOB - Series 1998-A Refunding	\$ 12,855,000	\$ 4,029,769	\$ 16,884,769
GOB - Series 1999-A Refunding	13,005,000	1,477,831	14,482,831
GOB - Series 1999-B	3,000,000	75,000	3,075,000
GOB - Series 2000-A	4,650,000	337,125	4,987,125
GOB - Series 2001-A	10,065,000	3,572,575	13,637,575
GOB - Series 2002-A	13,110,000	8,537,888	21,647,888
GOB - Series 2002-B Refunding	405,000	2,830,375	3,235,375
GOB - Series 2003-A	11,665,000	8,285,400	19,950,400
GOB - Series 2003-B Refunding	3,355,000	834,356	4,189,356
GOB - Series 2004-A	18,025,000	13,160,250	31,185,250
GOB - Series 2005-A	6,340,000	4,707,450	11,047,450
GOB - Series 2005-B Refunding	100,000	3,405,000	3,505,000
GOB - Series 2006-A	3,510,000	2,654,438	6,164,438
GOB - Series 2008-A	5,050,000	4,343,000	9,393,000
Total	<u>\$ 105,135,000</u>	<u>\$ 58,250,457</u>	<u>\$ 163,385,457</u>

**City Indebtedness**

The following table depicts the history of City debt service from fiscal year 2005-06 with estimated debt service for fiscal year 2009-10 based on the amount of current outstanding debt.

**TABLE IX**  
**DEBT SERVICE REQUIREMENTS <sup>(1)</sup>**  
**FOR FISCAL YEARS 2006-10**  
**(amounts expressed in thousands)**

	Fiscal Year 2005-06	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09	Fiscal Year 2009-10
MICLA <sup>(2)</sup>	\$ 152,885	\$ 128,704	\$ 150,355	\$ 157,141	\$ 161,641
General Obligation	164,467	169,890	171,625	166,638	163,385
Judgment Obligation	7,885	7,089	6,822	4,299	4,116
Convention Center Authority	37,506	38,593	40,352	46,909	50,074
Parking System Revenue Bonds	8,610	8,605	8,605	8,606	8,603
Proposition K Lighting District 96-1	3,143	3,084	3,086	3,089	3,089
Site-Specific Tax Revenue Bonds	865	907	1,030	1,126	1,252
Solid Waste Resources Revenue Bonds	17,838	33,604	34,860	33,259	35,984
Wastewater System	137,746	165,852	172,979	144,105	144,020
Subtotal	530,945	556,328	589,714	565,172	572,164
Tax and Revenue Anticipation Notes <sup>(3)</sup>	23,793	33,290	39,331	28,041	(4)
Total	\$ 554,738	\$ 589,618	\$ 629,045	\$ 593,213	\$ 572,164

## Notes:

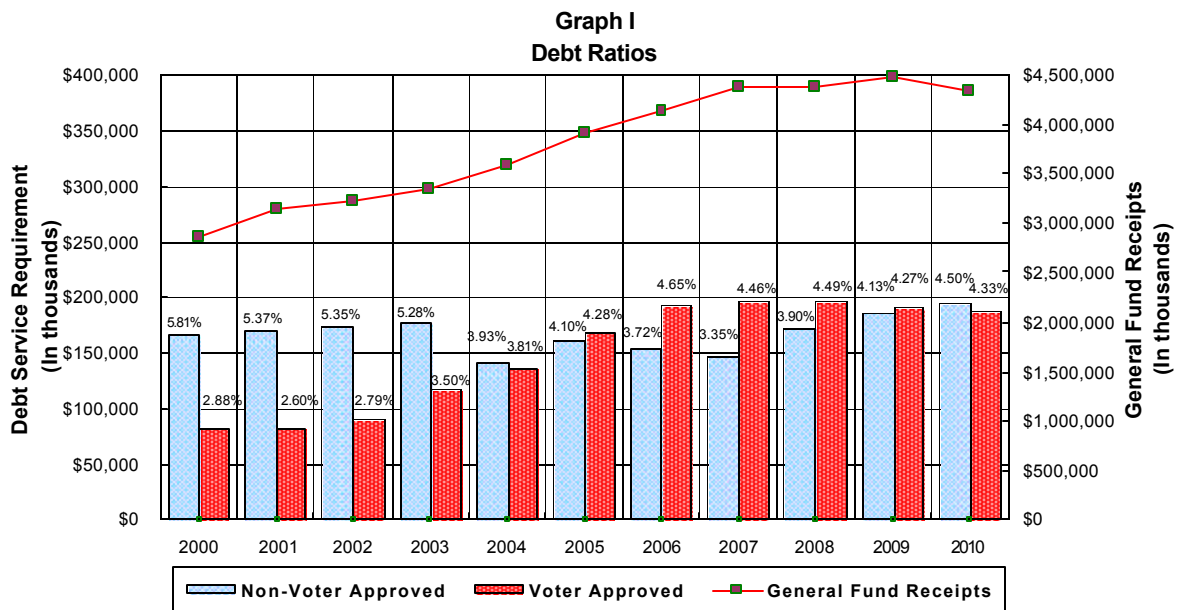
- (1) Long-term debt does not include short-term commercial paper notes. However, the goal is to replace commercial paper with long term debt. As of January 2009, the balance of the MICLA and Wastewater System commercial paper notes is \$135.1 million and \$298.1 million, respectively.
- (2) Includes debt service requirement supported by assessment on real property approved by the electorate of \$21,534,740 in fiscal year 2009-10
- (3) Represents actual interest paid on Tax and Revenue Anticipation Notes (TRANS) on:
 

7/14/05	-	\$618,900,000
7/12/06	-	767,500,000
7/12/07	-	909,725,000
7/15/08	-	975,325,000
- (4) The amount of interest to be paid in fiscal year 2009-10 will depend upon the size of the TRANS and interest rates at the time of sale. The size of the TRANS will depend upon the amount of cash needed for cash flow and budgetary decisions on advance funding of City pensions and retirement contributions.

### City Debt Policy

The following graph illustrates the City's General Fund debt in relation to the City's debt policy.

The City's debt policy established maximum levels for voter and non-voter approved debt. Under current policy, the City's total debt service level for voter and non-voter approved debt shall not be greater than 15% of General Fund revenues. The maximum debt service level for non-voter approved debt is not to exceed 6% of General Fund revenues (with certain exceptions); with the maximum voter approved debt service level equal to the difference between the total maximum debt service level (15%) and the actual ratio of non-voter approved debt to General Fund revenues.



Data from Table X illustrates graphically the City's capacity to issue voter and non-voter approved debt. Based on the current ratio of debt service level to total projected receipts in fiscal year 2009-10, the City has the capacity to issue additional non-voter approved debt with an annual debt service requirement of no more than \$65.1 million or 1.50% of General Fund receipts. After the \$65.1 million, the City has the capacity to issue voter approved debt with an annual debt service requirement of no more than \$203 million.

**Table X**  
**CITY DEBT POLICY**  
**(Shall not exceed 6% of General Fund Revenue for Non-Voter approved debt and**  
**15% for Voter approved and Non-Voter approved combined)**  
**(dollar amounts expressed in thousands)**

Fiscal Year	Debt Service Requirement			General Fund Receipts <sup>(a)</sup>	Ratio of Debt Service to Total Receipts		
	Non-Voter Approved	Voter Approved	Total		Non-Voter Approved	Voter Approved	Total
1999-00	166,311	82,242	248,553	2,860,424	5.81%	2.88%	8.69%
2000-01	169,203	82,014	251,217	3,150,529	5.37%	2.60%	7.97%
2001-02	172,708	89,973	262,681	3,227,338	5.35%	2.79%	8.14%
2002-03	176,441	117,085	293,526	3,342,648	5.28%	3.50%	8.78%
2003-04	141,009	136,739	277,748	3,585,317	3.93%	3.81%	7.74%
2004-05	160,337	167,281	327,618	3,912,975	4.10%	4.28%	8.38%
2005-06	153,857	192,484	346,341	4,136,531	3.72%	4.65%	8.37%
2006-07	146,792	195,720	342,512	4,386,748	3.35%	4.46%	7.81%
2007-08	170,802	196,743	367,545	4,383,567	3.90%	4.49%	8.39%
2008-09	185,067	191,308	376,375	4,481,404	4.13%	4.27%	8.40%
2009-10	195,549	188,009	383,558	4,342,398	4.50%	4.33%	8.83%

(a) All years with capitalized interest have been adjusted upwards to reflect bond proceeds to pay for capitalized interest. For fiscal years 2003-04, 2004-05, 2007-08, 2008-09 and 2009-10, the adjustments are \$5,367,946, \$3,797,274, \$16,841,679, \$16,082,240 and \$16,082,240 respectively. Fiscal years 2003-04 through 2009-10 include revenues from Staples Center.

**Cash Flow**

Revenues and expenditures for the first six months of fiscal year 2008-09 are presented on the following table.

**TABLE XI**  
**COMPARISON BETWEEN REVENUES AND EXPENDITURES**  
**FIRST SIX MONTHS OF FISCAL YEAR 2008-09**  
**(amounts expressed in thousands)**

Fiscal Year 2008-09	Revenues	Cumulative Revenues	Expenditures	Cumulative Expenditures	Cumulative Net Revenue Over/(Under)
July	\$ 296,885	\$ 296,885	\$ 587,039	\$ 587,039	\$ (290,154)
August	333,632	630,517	414,533	1,001,572	(371,055)
September	256,980	887,497	378,033	1,379,605	(492,108)
October	271,608	1,159,105	367,821	1,747,426	(588,321)
November	261,599	1,420,704	352,988	2,100,414	(679,710)
December	666,510	(a) 2,087,214	491,241	2,591,655	(504,441)

(a) Includes first installment (\$370,454,188) of property tax received on 12/19/08.

The Controller uses various resources to compensate for differences between receipts and expenditures that include Tax and Revenue Anticipation Notes (TRANS)<sup>5</sup>, Reserve Fund and interfund borrowings, budgeted Reserve Fund transfers to the General Fund, and beginning of the year General Fund encumbrances.

As indicated in Table XII, beginning General Fund encumbrances are an important resource for cash management. As encumbrances backed by cash are liquidated over time, the cash that remains encumbered (and not yet expended) offsets the need for additional levels of current year cash. The following table illustrates cash flow borrowings and beginning General Fund encumbrances for fiscal year 1999-00 through 2008-09.

<sup>5</sup> TRANS are used to offset the difference between revenues and expenditures during the first six months of the fiscal year.

**TABLE XII**  
**GENERAL FUND CASH FLOW BORROWINGS**  
**FOR FISCAL YEARS 1999-00 THROUGH 2008-09**  
(amounts expressed in thousands)

Fiscal Year	Total Annual Cash Flow Borrowings				Beginning General Fund Encumbrances
	Reserve Fund	Other Funds	TRANS	Total	
1999-00	\$ 56,000	\$ 145,000	\$ --	\$ 201,000	\$ 180,416
2000-01	32,000	--	200,000	232,000	202,981
2001-02	10,000	--	200,000	210,000	258,235
2002-03	--	--	250,000	250,000	254,660
2003-04	45,000	--	200,000	245,000	237,014
2004-05	--	--	325,000	325,000	264,209
2005-06	--	--	200,000	200,000	288,212
2006-07	--	--	150,000	150,000	328,441
2007-08	42,243	70,000	250,000	362,243	407,534
2008-09	--	116,000	350,000	466,000	381,493

### Sizing the 2009-10 TRANS

In prior years, I have included an estimated amount of borrowing needed to meet City short-term cash flow requirements in the first half of the fiscal year. This year, due to the financial uncertainty facing the City in 2008-09 and 2009-10 we cannot develop reasonable estimates for the key elements needed to determine cash flow requirements and availability in the period from July 1 to December 20. My Office will work with the Mayor and CAO, as we have in prior years, to determine the amount of borrowing required and its source, as better information becomes available. However, given projected revenues, and concerns expressed in this letter about delays in reducing expenditures going into next year, likely cash flow borrowing requirements will significantly exceed the \$350 million borrowed this fiscal year.

### Reserve Fund

In prior reports, I have supported building a stronger Reserve Fund and urged caution in using one-time revenues to balance the budget. Given unpredictable issues facing the economy and the City, I strongly support bringing budget appropriations in line with revenues, while minimizing the use of the Reserve Fund to balance the budget. We need to realistically realign our expenditures to match our ongoing revenues.

However, part of the purpose of a Reserve Fund is to assist with an orderly adjustment in difficult economic times. The next several years will certainly qualify as difficult times and it may be necessary for the Mayor and Council to reduce the Reserve Fund to aid in an orderly transition to a new economic reality. I strongly urge the Mayor and City Council to only use the Reserve Fund as part of a comprehensive plan to bring City expenditures and revenue in line. In no way should it be used as one-time revenue to prop up budgetary spending that is not sustainable.

**Office of the Controller**  
**Estimated Receipts for Fiscal Year 2008-2009**

	<u>Amount</u>
<b>General Fund Receipts:</b>	
Property Tax:	
Property Tax 1%	\$ 1,069,060,000
Property Tax - Sales Tax Replacement	111,683,000
Property Tax - VLF Replacement	<u>320,498,000</u>
Total Property Tax	1,501,241,000
Utility Users' Tax	663,533,000
Licenses, Permits, Fees and Fines	738,459,000
Business Tax	455,408,000
Sales Tax	317,000,000
Documentary Transfer Tax	95,000,000
Power Revenue Transfer	194,693,000
Transient Occupancy Tax	145,125,000
Parking Fines	134,000,000
Parking User Tax	85,418,000
Franchise Income	53,179,000
Grant Receipts	17,116,000
Interest	32,018,000
Motor Vehicle License Fees	11,767,000
Tobacco Settlement	12,028,000
Residential Development Tax	1,600,000
Transfer from Telecommunications Development Account	<u>3,871,000</u>
<b>Total General Fund Receipts</b>	<u>\$ 4,461,456,000</u>

**Office of the Controller**  
**Estimated Receipts for Fiscal Year 2008-2009**

<b>Special Receipts:</b>	<u>Amount</u>
Sewer Construction and Maintenance Fund	\$ 735,221,000
City Levy for Bond Redemption and Interest	166,638,000
Building and Safety Enterprise Fund	88,401,000
Special Gas Tax Street Improvement Fund	127,627,000
Proposition A Local Transit Assistance Fund	118,204,000
Solid Waste Resources Revenue Fund	275,568,000
Proposition C Anti-Gridlock Transit Improvement Fund	70,049,000
Street Lighting Maintenance Assessment Fund	47,478,000
City Employees' Retirement Fund	57,532,000
Local Public Safety Fund	35,409,000
Special Parking Revenue Fund	(7,080,000)
Community Development Trust Fund	44,312,000
Stormwater Pollution Abatement Fund	29,727,000
Convention Center Revenue Fund	26,000,000
Special Police Communications/911 System Tax Fund	20,354,000
Code Enforcement Trust Fund	33,456,000
Zoo Enterprise Trust Fund	14,745,000
Traffic Safety Fund	15,005,000
Citywide Recycling Fund	20,394,000
Workforce Investment Act Trust Fund	16,356,000
Rent Stabilization Trust Fund	11,316,000
Arts and Cultural Facilities and Services Fund	12,790,000
Affordable Housing Trust Fund	72,948,000
Los Angeles Convention and Visitors Bureau Trust Fund	11,884,000
Neighborhood Empowerment Fund	7,134,000
Telecommunications Development Account Fund	7,456,000
HOME Investment Partnerships Program Fund	4,437,000
Supplemental Law Enforcement Services Fund	3,303,000
Multy-Family Bulky Item Fund	7,423,000
Central Recycling and Transfer Fund	2,466,000
Mobile Source Air Pollution Reduction Trust Fund	5,699,000
Municipal Housing Finance Fund	1,596,000
El Pueblo de Los Angeles Historical Monument Revenue Fund	4,416,000
Staples Arena Special Fund	4,120,000
Major Projects Review Trust Fund	2,080,000
City Employees Ridesharing Fund	3,105,000
Landfill Maintenance Special Fund	5,357,000
Local Transportation Fund	2,354,000
City Ethics Commission Fund	2,216,000
Community Services Administration Grant Fund	1,877,000
Household Hazardous Waste Special Fund	2,122,000
Older Americans Act Fund	2,219,000
Arts Development Fee Trust Fund	1,629,000

Continued...

**Office of the Controller  
Estimated Receipts for Fiscal Year 2008-2009**

	<u>Amount</u>
<b>Special Receipts - (Continued)</b>	
Park and Recreational Sites and Facilities Fund	\$ 900,000
Street Damage Restoration Fee Fund	4,311,000
Industrial Development Authority Fund	322,000
Disaster Assistance Trust Fund	12,303,000
Housing Opportunities for Persons with AIDS Fund	313,000
Allocations From Other Sources:	
AB 2800 Senior Services Grant Fund	63,000
Bicycle License Fund	1,000
Bus Bench Advertising Fund	148,000
Business Improvement District Trust Fund	353,000
City Planning Systems Development Fund	7,442,000
Coastal Transportation Corridor Trust Fund	301,000
Cultural Affairs Trust Fund	74,000
Curbside Recycling Trust Fund	2,117,000
Fire Hydrant Installation and Main Replacement Fund	634,000
First and Broadway Child Care Fund	196,000
General Services Trust Fund	360,000
Integrated Solid Waste Management Fund	1,034,000
Pershing Square Project	573,000
Street Banners Trust Fund	64,000
Landfill Closure and Maintenance Fund	1,400,000
Los Angeles Regional Agency Trust Fund	84,000
Used Oil Collection Fund	520,000
Ventura\Cahuenga Boulevard Corridor Specific Plan Revenue Fund	782,000
Warner Center Transportation Trust Fund	93,000
West LA Transportation Improvement and Mitigation	90,000
	<hr/>
<b>Total Special Receipts</b>	<b>2,149,821,000</b>
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<b>Estimated Receipts for Fiscal Year 2008-2009</b>	<b>\$ 6,611,277,000</b>
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**Office of the Controller**  
**Estimated Receipts for Fiscal Year 2009-2010**

	<u>Amount</u>
<b>General Fund Receipts:</b>	
Property Tax:	
Property Tax 1%	\$ 993,161,000
Property Tax - Sales Tax Replacement	110,231,000
Property Tax - VLF Replacement	<u>317,293,000</u>
Total Property Tax	1,420,685,000
Utility Users' Tax	672,533,000
Licenses, Permits, Fees and Fines	681,151,000
Business Tax	434,881,000
Sales Tax	313,000,000
Power Revenue Transfer	204,100,000
Transient Occupancy Tax	143,212,000
Parking Fines	134,000,000
Documentary Transfer Tax	100,000,000
Parking User Tax	85,418,000
Franchise Income	53,201,000
Grant Receipts	17,116,000
Interest	35,200,000
Motor Vehicle License Fees	10,527,000
Tobacco Settlement	12,166,000
Residential Development Tax	1,600,000
Transfer from Telecommunications Development Account	<u>3,665,000</u>
<b>Total General Fund Receipts</b>	<u>\$ 4,322,455,000</u>

**Office of the Controller**  
**Estimated Receipts for Fiscal Year 2009-2010**

	<u>Amount</u>
<b>Special Receipts:</b>	
Sewer Construction and Maintenance Fund	\$ 619,861,000
City Levy for Bond Redemption and Interest	163,386,000
Building and Safety Enterprise Fund	98,000,000
Special Gas Tax Street Improvement Fund	112,080,000
Proposition A Local Transit Assistance Fund	138,884,000
Solid Waste Resources Revenue Fund	296,566,000
Proposition C Anti-Gridlock Transit Improvement Fund	58,744,000
Street Lighting Maintenance Assessment Fund	51,738,000
City Employees' Retirement Fund	59,475,000
Local Public Safety Fund	36,106,000
Special Parking Revenue Fund	57,261,000
Community Development Trust Fund	40,000,000
Stormwater Pollution Abatement Fund	29,378,000
Convention Center Revenue Fund	24,500,000
Special Police Communications/911 System Tax Fund	20,964,000
Code Enforcement Trust Fund	33,092,000
Zoo Enterprise Trust Fund	19,329,000
Traffic Safety Fund	16,405,000
Citywide Recycling Fund	25,891,000
Workforce Investment Act Trust Fund	9,522,000
Rent Stabilization Trust Fund	11,317,000
Arts and Cultural Facilities and Services Fund	12,555,000
Affordable Housing Trust Fund	4,085,000
Los Angeles Convention and Visitors Bureau Trust Fund	11,884,000
Neighborhood Empowerment Fund	7,134,000
Telecommunications Development Account Fund	10,913,000
HOME Investment Partnerships Program Fund	4,784,000
Supplemental Law Enforcement Services Fund	3,150,000
Multy-Family Bulky Item Fund	7,395,000
Central Recycling and Transfer Fund	2,506,000
Mobile Source Air Pollution Reduction Trust Fund	4,913,000
Municipal Housing Finance Fund	1,320,000
El Pueblo de Los Angeles Historical Monument Revenue Fund	3,589,000
Staples Arena Special Fund	3,860,000
Major Projects Review Trust Fund	2,080,000
City Employees Ridesharing Fund	3,144,000
Landfill Maintenance Special Fund	3,710,000
Local Transportation Fund	2,354,000
City Ethics Commission Fund	2,725,000
Community Services Administration Grant Fund	1,877,000
Household Hazardous Waste Special Fund	1,960,000
Older Americans Act Fund	2,219,000
Arts Development Fee Trust Fund	1,600,000

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**Office of the Controller**  
**Estimated Receipts for Fiscal Year 2009-2010**

	<b>Amount</b>
<b>Special Receipts - (Continued)</b>	
Park and Recreational Sites and Facilities Fund	\$ 800,000
Street Damage Restoration Fee Fund	3,811,000
Industrial Development Authority Fund	322,000
Disaster Assistance Trust Fund	41,000,000
Housing Opportunities for Persons with AIDS Fund	313,000
Allocations From Other Funds:	
AB 2800 Senior Services Grant Fund	63,000
Bicycle License Fund	1,000
Bus Bench Advertising Fund	148,000
Business Improvement District Trust Fund	353,000
City Planning Systems Development Fund	7,442,000
Cultural Affairs Trust Fund	155,000
Curbside Recycling Trust Fund	2,117,000
Fire Hydrant Installation and Main Replacement Fund	634,000
First and Broadway Child Care Fund	196,000
General Services Trust Fund	360,000
Integrated Solid Waste Management Fund	900,000
Pershing Square Project	571,000
Street Banners Trust Fund	64,000
Landfill Closure and Maintenance Fund	1,400,000
Los Angeles Regional Agency Trust Fund	84,000
Used Oil Collection Fund	520,000
	<b>2,083,510,000</b>
<b>Total Special Receipts</b>	<b>2,083,510,000</b>
<b>Estimated Receipts for Fiscal Year 2009-2010</b>	<b>\$ 6,405,965,000</b>

**OFFICE OF THE CONTROLLER**  
**GENERAL FUND RECEIPTS**  
**LAST TEN FISCAL YEARS AND ESTIMATES FOR FISCAL YEARS 2009 and 2010**  
 (amounts expressed in thousands)

Fiscal Year	Property Tax <sup>(a)</sup>	Utility Users' Tax	Sales Tax	Business Tax	Transient Occupancy Tax	Licenses, Permits, Fees and Fines	Other Revenues <sup>(b)</sup>	Total General Fund Receipts
1999	\$ 501,292	\$ 493,531	\$ 306,360	\$ 308,013	\$ 92,149	\$ 394,323	\$ 648,578	\$ 2,744,246
2000	527,810	487,439	331,710	317,340	98,306	420,475	667,521	2,850,601
2001	588,307	557,401	357,222	344,605	108,538	431,628	753,640	3,141,341
2002	622,393	488,778	351,062	360,336	93,901	473,162	831,956	3,221,588
2003	663,440	510,339	363,787	356,041	92,652	467,577	878,182	3,332,018
2004	717,801	576,251	377,890	373,248	97,989	462,600	970,296	3,576,075
2005	1,029,161	589,858	316,561	396,794	127,751	496,598	948,582	3,905,305
2006	1,121,848	604,947	323,555	434,529	126,989	477,231	1,043,559	4,132,658
2007	1,334,172	605,270	333,885	464,330	134,557	545,931	964,734	4,382,879
2008	1,389,255	628,319	335,562	466,997	148,523	614,891	779,314	4,362,861
2009 (Estimated)	1,501,241	663,533	317,000	455,408	145,125	738,459	640,690	4,461,456
2010 (Projected)	1,420,685	672,533	313,000	434,881	143,212	681,151	656,993	4,322,455

(a) Starting in fiscal year 2004-05, property tax receipts were increased by the State to offset reductions in Vehicle License Fees and Sales Taxes (the triple flip). Receipts for fiscal years 2004-05 and 2005-06 were further reduced by approximately \$48 million each year for the State mandated transfer to ERAF (Education Revenue Augmentation Fund).

(b) Except for fiscal years 1999-2000, 2008-09 and 2009-10, Other Revenues include transfers from the Reserve Fund.

